



J.S. FERRARO



# THE MONTHLY RED MEAT OUTLOOK: HOGS & PORK

MARCH 2020

In last month's *Red Meat Outlook*, we discussed how the coronavirus (COVID-19) outbreak in China and resulting quarantines were hindering the ability to get imported pork into the country and distributed to the consuming areas. Those dynamics remain in place. Ports are still having difficulty unloading ships in a timely fashion and quarantines have slashed foodservice demand in China where pork is often served. However, since then, the virus has spread to other parts of the world and created considerable concern in financial markets. The fear is that this will turn into a worldwide pandemic and tip the world economy into a recession.

US now exporting **nearly 28%**  
of pork production

It could prompt quarantines in other countries that import US pork and cause some of the same problems that have been noted in China. That should be a real concern for the US pork industry, and the futures market has recently taken note of this risk. Hog futures, while down, haven't been hit as hard as cattle futures and the reason is that the bull story for US pork exports is so compelling. We know that China desperately needs imported pork and US pork can be landed in China well below their domestic price, even including tariffs. But the flip side is that the coronavirus outbreak is making it very difficult for China to import growing quantities of US pork. Traders see the African Swine Fever (ASF) "bull" story as having a long-term impact while the coronavirus problem is seen as more temporary. The jury is still out on whether or not those assumptions are correct, but for now the lean hog futures have pulled back as traders assess the situation. If the coronavirus situation worsens into a global pandemic, it is hard to imagine that the US pork industry will remain unscathed.

## SUPPLY PICTURE

US pork production remains strong. Hog kills are consistently coming in above the level implied by prior pig crops in USDA's *Hogs and Pigs* report. Last week's kill came in at just under 2.56 million head and was about 5% higher than the same week last year. Beginning in March, the industry will start to kill hogs that were born in the Sep/Nov quarter. USDA estimated that pig crop to be up 1.8%. So if that estimate is correct, we should expect kill levels over the quarter to be up by roughly that amount. However, we don't expect kills to immediately drop from 5% over last year to 1.8%. Judging by the size of recent kills, it is likely that USDA may have also underestimated the Sep/Nov pig crop and we will actually see kills larger than projected by the pig crop once again.

Hog weights are only running about a pound over last year, but last year's weights were heavier than normal. This is borne out by the de-trended and de-seasonalized (DTDS) weights in **Figure 1**, which are very near the levels seen last year at this time. It is worthwhile to note that last year hog prices started to decline about the time the DTDS weights reached the zero line. The same thing happened in June when the DTDS moved briefly above zero. Last week the DTDS weights backed away from the zero line, but, there is risk to the hog market should they move back higher. One factor that might alleviate that risk is the recent removal of ractopamine feeding from a large portion of the US herd. Without that growth-promoting drug, we could see hog weights come down at a faster-than-normal rate this spring and that would alleviate our price concerns somewhat. So far that hasn't shown up in the data and we will be watching the direction of DTDS weights closely in the weeks to come.

US pork production is projected to be up over 8% during Q1, based on much larger numbers coming to slaughter and heavier carcass weights. That should moderate down to about a 4% YOY

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increase in Q2. Still, that is a lot of pork that will need to move through commercial channels. While the focus right now is on the demand-side impacts of coronavirus, the supply side of the market is largely determined. Large numbers of hogs are in the production pipeline and there is very little flexibility to change production over the next six months.

## DEMAND SITUATION

The biggest immediate demand concern is how the spreading coronavirus will impact overseas demand for US pork. In the last couple of months, the US has exported 27-28% of its production (see **Figure 2**), so any slowdown there could have a dramatic impact on US hog and pork prices. Many times over the past year we have raised the concern about the global economy slipping into a recession. Things were looking tenuous before the coronavirus outbreak, with slowdowns noted in Asia and Europe. There is a good chance that the coronavirus could be the event that tips those economies into a full-blown recession. If that happens, the US economy is also at risk for recession. Fortunately for the US pork industry, China should continue to exhibit strong demand for US pork even in the event of an economic contraction. But other major destinations, such as S. Korea and Japan, may see reduced demand for pork from overseas. Regardless of how it plays out, with the degree of pork production that is already in the pipeline, the US can ill-afford much if any slowdown in exports without it weighing on domestic prices. In just a few days, USDA will release the official export numbers for January and we expect that they will be historically huge, perhaps as much as 50% above the prior year. That might get the futures market excited for a short while, but it is important to remember that those exports are done and gone and January saw far less of a coronavirus impact than February will.

Domestic pork demand is likely to decline also if a recession takes hold, but it probably doesn't have as much downside risk as a more expensive protein like beef does. Currently, we read domestic de-

mand as somewhat weak, but slowly improving. Last week's rout in the equity markets and sharp decline in lean hog futures may cause some domestic pork buyers to remain on the sidelines for a week or two. The natural response to increased economic uncertainty is to limit one's ownership of product to the very minimum necessary. Of course, that leads to a situation where many buyers are short-bought and at some point they could all rush into the market seeking to fulfill spot needs, creating upside risk in the cutout.

**Spread of COVID-19 and recent sharp declines in financial markets heightened risk of a global recession**

## SUMMARY

The further spread of the coronavirus worldwide and recent sharp declines in financial markets have heightened the risk of a global recession and made pork buyers very cautious. US pork exports could suffer from the ensuing decline in worldwide economic activity and that presents a risk to price levels in the next few weeks. The fact that China is still taking large quantities of US pork even in the face of these difficulties is a testament to just how badly they need imported pork following the decimation of their hog herd by ASF. US hog supplies are plentiful at present and expected to remain that way through spring. Seasonally, hog and pork supplies will slowly tighten as we move deeper into spring, so some price appreciation is expected. However, if the coronavirus situation limits pork exports in the near-term that could very easily cause price levels to fail to reach normal seasonal tops this spring. Buyers should remain cautious in their positioning, but recognize that any strong rebound in the hog futures and/or equity markets could generate a lot of buying interest from pork users who are currently short bought. **Table 1** provides our near-term price forecasts.

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Figure 1: De-trended & De-seasonalized Barrow & Gilt Carcass Wts

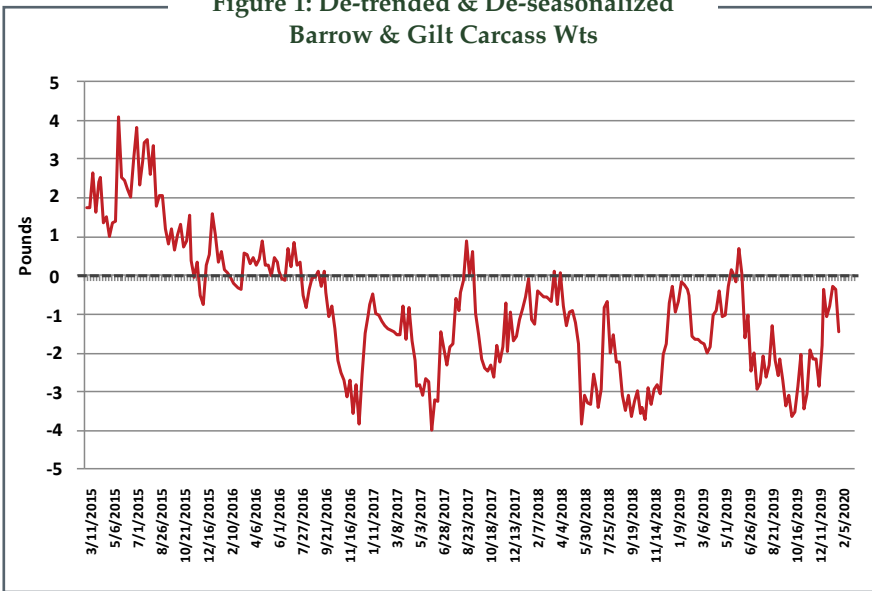


Figure 2: Percentage of US Pork Production Exported

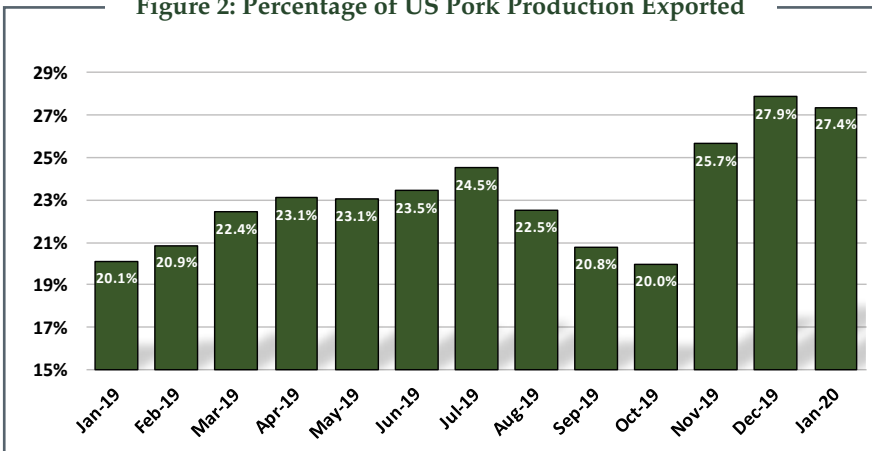


Table 1: JSF Hog and Pork Price Forecasts

	11-Mar	18-Mar	25-Mar	1-Apr	8-Apr	15-Apr
Pork Cutout	66.0	67.9	70.6	71.6	72.1	73.9
Loin Primal	68.1	69.2	70.4	70.2	68.7	68.5
Butt Primal	74.4	75.7	77.8	78.3	79.8	81.0
Picnic Primal	50.7	50.0	48.6	47.6	47.0	48.5
Rib Primal	131.1	133.0	136.0	139.4	142.8	142.0
Ham Primal	61.6	62.8	64.2	64.4	63.2	62.8
Belly Primal	68.0	76.0	88.0	93.8	100.0	111.0
Lean Hog Index	55.6	57.8	61.3	62.2	62.0	65.0



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Dr. Rob Murphy is an agricultural economist and business leader with over 29 years in the industry. He has a wealth of experience in the North American meat and livestock industries studying, analyzing and predicting market movements.

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